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SUBJECT: TURKEY: TELECOM/IT SECTOR CLAMORING FOR MORE
COMPETITION

REF: A: ISTANBUL 124

B: 05 ANKARA 6701 AND PREVIOUS

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1. (SBU) Summary: Following the privatization last July of Turkey's fixed line telecom company Turk Telekom, operators are urging the Telecommunications Regulatory Board to move more quickly in licensing cable and new technologies and to augment competition. Still dominant Turk Telekom's new management promises to embrace fair competition, but this promise has not clearly permeated through its traditional bureaucratic mind set. Despite still low internet penetration, there are significant growth opportunities in the telecom/IT sectors in Turkey, and sector participants are eager to learn from U.S. market and FCC regulatory experience. End Summary.

Still Dominant Turk Telekom

2. (SBU) Representing the 55% majority interest led by Oger Group, Turk Telekom's (TT) new President and CEO Paul Doany said all the right things at a recent "STEAM" telecom sector conference in Istanbul March 1-2. Doany stressed that TT was fully committed to acting as a fair competitor and good business partner within the telecom regulatory framework and given a fair return for investment. He noted that TT's competitors were customers, too. Doany emphasized that the company was moving from order taking to marketing, but admitted that it was hard to effect change overnight. While claiming unflagging commitment to all stakeholders, he argued that the incumbent TT could not be solely burdened with capital costs, allowing newcomers to cherry pick business. Doany said that PC penetration of 5 million PCs in Turkey was still too low, but he expected this to double in 2 years to 10 million PCs. Conference participants gave TT credit for many successes, achieving majority privatization to foreign capital, for one. In addition, multiple, redundant international cable connections have been established (two Mediterranean submarine and five European terrestrial), mitigating risky over-dependence on a single connection. Finally, TT has ramped up its ADSL wide-band internet portals to over 1.8 million and subscriptions to over 1.6 million.

3. (SBU) Minister of Transportation and Communication Binali Yildirim - by teleconference - told the conference he is committed to moving forward on funding universal access, R&D, PC provision to schools, and e-transformation in government. He said the government was formulating a new communications law to improve the business environment. He said that the tax burden on GSM services is rather high. This problem would be overcome partly in 2007, he claimed. The Minister said that GOT, TT, and Microsoft were committed to increasing PC's in schools (Ref A). Telecommunications Authority President Tayfun Arcarer outlined an ambitious work program, which included moving forward on wide-band provision via cable, wireless, and 3G platforms.

Convergence, Taxation, Customers - not Subscribers

4. (SBU) Industry participants made the following points: High taxation: mobile and other operators lamented that Turkey faced among the highest taxation rates on telecom services in the world (just ahead of Uganda), at around 60%, severely hurting the sector's ability to expand and innovate. One participant told EconOff that the government's position was that this was a lucrative sector that was easy to tax, so it was unapologetic in locking in an important revenue source. Turkcell is the dominant mobile provider, but the sector enjoys competition from Telsim (recently acquired by Vodafone) and Avea (TT minority interest).

5. (SBU) Low internet penetration: According to EU

statistics overall internet usage in Turkey stands at 15%, versus an EU average of 40%. Participants noted that low internet penetration was a function of low computer penetration (5 million in Turkey) and to some extent low fixed line penetration.

16. (SBU) Broad-band is not Broad: Turk Telekom is still the sole provider of wide-band internet through its ADSL service. While it has ramped up subscriptions at a fairly reasonable price, there is no competition for services. One media participant lamented that Turkey's wide-band was mostly 256 and 512 bp, while in parts of Europe and Asia customers used 2 MB and above. He said Turkish customers were eager for new services and products, but needed more band-width. He claimed that one-half of Europe's high speed ADSL was provided by new competitors.

17. (SBU) Interconnection and Legal Woes: A Turkcell rep told EconOff that TT's interconnection and leased line pricing was still exorbitant. He said that Turkcell is able to mitigate this cost somewhat by using competing international providers (who still have to connect through the Turk Telekom infrastructure; out of forty licenses, 25 licensees have signed an interconnection agreement with TT, but only a handful of long-distance license-holders operate). One participant noted that Turkcell's audit report was filled with pages of descriptions of legal cases filed against it by TT. The industry still perceives that rather than embracing competition in new technology, TT resorts too quickly to legal action (because it often wins). One participant told EconOff that TT had filed well over 200 cases against individuals who were providing competing services. One Vice President of the Telecommunications Authority mentioned that TT's new DG Doany told them that TT's new management would drop most of these court cases in the near future. ISP's still struggle with expensive interconnection with TT as both provider and competitor.

18. (SBU) Cable: Industry is eager for cable licenses to be issued, heretofore held up by legal and regulatory cases, hoping that - like in the U.S. and elsewhere - this could provide effective wide-band internet competition. Currently, there is limited internet provision under an existing cable license. Once the licenses are issued, licensees are planning to provide digital cable connections which will enable wide-band interconnection. The current cable-TV network is analog type. Prospective cable-TV licensees would like to provide their services free from Turksat, but the new draft law states that they have to go through Turksat satellite services, which is still 100% owned by the GOT (it was separated from TT prior to privatization).

19. (SBU) VOIP: Under Turkish regulations, Voice Over Internet Protocol (VOIP) can be provided under voice licenses for international service or intra-company. Long distance service providers are mostly using VoIP. Turks are also taking advantage of Skype, Vonage, and other similar providers. For this kind of service, the regulator noted the challenge of the lack of a telephone number, which causes a problem for emergency services. Currently, the regulator does not have a separate regulation for VoIP.

110. (SBU) There was lots of buzz about local loop unbundling, wireless, 3G and more to catalyze competition in internet and telecom provision. The regulator stated that it was closely studying new technology to bring in new licensing.

111. (SBU) Comment: Both the Telecom and Energy Regulatory Boards in Turkey have struggled to gain competence and safeguard independence in their respective sectors. While the energy board's challenge has been that the sector is still dominated by government actors - so it does not yet have a dynamic market to regulate, the telecom market is majority privatized and market participants are tearing at the bit. The STEAM telecom conference was striking in the significant participation by the regulator and extensive and spirited dialogue with industry. However, industry is intensely frustrated with slow progress on licensing new technologies and imperfect competition in many areas. Industry is speaking loudly, and the regulator is listening, so there is great hope in this critical sector.

112. (SBU) Many participants expressed to EconOff the desire to learn from U.S. and FCC experiences; for example, there was interest in the recent FCC ruling that cable provided sustained competition to telephone fixed line DSL provision in the U.S. market. Turkey inevitably looks first to the EU, but realizes that its own specific approach can benefit from American lessons learned, especially in the dynamic telecom/IT sectors.